

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-10 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 /103 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7548

INFO USMISSION GENEVA

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 19481

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: L/A

TAGS: ECON, UK

SUBJECT: CHANCELLOR HEALEY'S CHRISTMAS PACKAGE

REFERENCE: LONDON 14783

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SUMMARY: THE CHANCELLOR OF THE EXCHEQUER ANNOUNCED A SER-

IES OF COSMETIC MEASURES INCLUDING SELECTIVE IMPORT CONTROLS AIMED AT REDUCING UNEMPLOYMENT. REACTION HAS RANGED FROM DERISION TO RELIEF THAT NO MAJOR REFLATION IS FORESHADOWED. END SUMMARY.

1. FACED WITH A GROWING CLAMOR TO PROVIDE SELECTIVE RELIEF FROM IMPORTS AND NEW RESOURCES TO REDUCE OVERALL UNEMPLOYMENT, THE CHANCELLOR ANNOUNCED A PACKAGE OF FIVE MEASURES DESIGNED TO SAVE OR CREATE SOME 21,000 JOBS, RESTRICT IMPORTS (SEPTEL), EASE THE TERMS ON INSTALLMENT BUYING, AND PROVIDE GOVERNMENT FINANCE FOR BUILDING STEEL INVENTORIES. THE MEASURES WERE IMMEDIATELY DEBATED IN PARLIAMENT AND WERE APPROVED DECEMBER 16 BY A MARGIN OF 14 VOTES.

2. UNDER THE HEADING OF JOB SAVING AND CREATION THREE NEW MEASURES WITH A TOTAL COST OF 14.8 MILLION POUNDS WERE ANNOUNCED.

A. 10 MILLION POUNDS FOR NEW LABOR INTENSIVE PROJECTS SPONSORED BY THE MANPOWER SERVICES COMMISSION WHOSE RESOURCES FOR THIS PURPOSE ARE NOW 40 MILLION POUNDS. THE INTENT IS TO PROVIDE FOR 10,000 NEW JOBS FOR YOUNG PEOPLE IN ADDITION TO THE 25,000 ALREADY IN TRAINING UNDER THE CURRENT PROGRAM.

B. THREE MILLION POUNDS TO LIBERALIZE THE TEMPORARY EMPLOYMENT SUBSIDY. THIS NOW PROVIDES A SUBSIDY OF 10 POUNDS PER WEEK PER WORKER NOT LAID OFF, FOR UP TO SIX MONTHS. THE THRESHOLD FOR THE SCHEME HAS BEEN LOWERED FROM FIRMS INTENDING TO LAY OFF 50 WORKERS TO THOSE WISHING TO LAY OFF 25 WORKERS. THE PRESENT SCHEME HAS BEEN INVOKED TO SAVE 9,000 JOBS AMONG THE 60,000 WORKERS POTENTIALLY ELIGIBLE. THE LIBERALIZATION SHOULD INCREASE THE COVERAGE TO ANOTHER 10,000 WORKERS.

C. THE COMMUNITY INDUSTRY SCHEME WILL RECEIVE ANOTHER 1.5 MILLION POUNDS. AT PRESENT THE SCHEME PROVIDES RESOURCES TO LOCAL AUTHORITIES TO HIRE 3,000 DISADVANTAGED YOUNG PEOPLE AT A COST OF 4 MILLION POUNDS. THE ADDED RESOURCES WILL PERMIT ANOTHER 1,000 PEOPLE TO BE BROUGHT UNDER THE SCHEME.

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3. IN ADDITION, THE CHANCELLOR HAS ELIMINATED INSTALL-
MENT BUYING RESTRICTIONS ON EIGHT CONSUMER ITEMS: FURNI-
TURE, CARPETS, KITCHEN AND BATHROOM EQUIPMENT, CENTRAL
AND SPACE HEATING, PREFABRICATED BUILDINGS, CAMPERS, AND
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BOATS. FOR OTHER GOODS, CREDIT TERMS WERE EASED BY REDUCING DOWNPAYMENTS AND LENGTHENING REPAYMENT PERIODS (33.3 TO 20 PERCENT AND 24 TO 30 MONTHS RESPECTIVELY). THIS RELAXATION IS UNLIKELY TO HAVE MUCH IMPACT ON CHRISTMAS SHOPPING BUT IS TAILORED TO BOOST DEMAND FOR THOSE PRODUCTS HARDEST HIT BY THE FALL IN CONSUMER SPENDING.

4. FINALLY, THE CHANCELLOR HAS MADE 70 MILLION POUNDS AVAILABLE TO BRITISH STEEL FOR BUILDING UP INVENTORIES. THESE FUNDS WILL BE MADE AVAILABLE THROUGH A SHORT TERM LOAN (45 PERCENT) AND PUBLIC DIVIDEND CAPITAL (55 PERCENT). THIS IS A COUNTERCYCLICAL MEASURE FOR BRINGING EXCESS CAPACITY INTO USE DURING THE RECESSION WITH THE INVENTORIES BEING DRAWN DOWN DURING THE RECOVERY PHASE.

5. COMMENT: THE CHANCELLOR'S PACKAGE IS NOT LIKELY TO HAVE MUCH IMPACT ON OVERALL UNEMPLOYMENT. THE JOB CREATING ASPECTS ARE LARGELY MINOR IMPROVEMENTS ON THE PROGRAMS ANNOUNCED IN SEPTEMBER (REFTEL). AS WAS THE CASE IN SEPTEMBER, IT IS THE VERY MINIMUM THAT HMG CAN DO WITHOUT JEOPARDIZING THE SUPPORT OF ITS TRADES UNION ALLIES. WHILE THEY ARE DISAPPOINTED WITH THE SCOPE OF THE PROGRAM, NEITHER THEY NOR THE LEFT WING OF THE LABOR PARTY WHICH TAKES A DERISORY VIEW OF THE WHOLE EXERCISE, ARE PREPARED TO BREAK RANKS WITH THE GOVERNMENT. THE INDUSTRIAL AND FINANCIAL COMMUNITY IS RELIEVED THAT THE AMOUNT OF NEW PUBLIC EXPENDITURE INVOLVED IS SUCH THAT NO MAJOR INFLATION WILL RESULT. SOURCES AT THE TREASURY TELL US THAT TO A LARGE EXTENT THIS PACKAGE WAS DESIGNED TO PROVIDE AN UNOBTRUSIVE FRAMEWORK FOR THE INTRODUCTION OF SELECTIVE IMPORT CONTROLS. TO THAT EXTENT THE PACKAGE HAS ACHIEVED ITS PURPOSE. PUT INTO CONTEXT, MR. HEALEY'S ACTION MUST BE SEEN AGAINST THE PRIME MINISTER'S OFT REPEATED PROMISE OF A LONG HARD WINTER. THIS HAS NOW ARRIVED AND THE GOVERNMENT IS DOING WHAT LITTLE IT CAN TO RELIEVE THE PINCH UNTIL IT HAS MORE ROOM FOR MANEUVER.

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